

Executive Summary

Tobacco Transition Payment Program Reporting on Form 1099's

Purpose:

This summarizes how the Commodity Credit Corporation (CCC) will report Tobacco Transition Payment Program (TTPP) to tobacco quota holders, tobacco growers and the Internal Revenue Service (IRS) on the corresponding 1099's Forms.

Program Facts:

The Fair and Equitable Tobacco Reform Act of 2004, terminated the tobacco marketing quota program and the tobacco price support program. As a result, CCC is entering into contracts with eligible tobacco quota holders and growers to provide compensation for the lost value of the quotas and related price support. Payments on approved contracts will be made in annual installments over a 10 year period beginning in 2005 and ending September 30, 2014.

Reporting Requirements Overview:

TTPP payments have important income tax implications for tobacco quota holders and growers. The quota holders' payment will be taxed as capital gain income while the tobacco growers' payment will be taxed as ordinary business income. The tobacco quota holders and growers need to work closely with their accountant, tax preparer, or other professional adviser in 2005 to determine the specific tax impact on their individual situation. The tax rates and reporting rules are substantially different for tobacco quota holders and growers.

Tobacco Quota Holders:

The IRS considers the quota holders' annual installment payments as an interest in land (real property) because it is assigned to farms and attached to land. Since quota is used in the trade or business of farming, it is subject to the rules established for installment sales including the reporting of a capital gain and applicable imputed interest given that payments will be made during next 10 years. Therefore, CCC will report the total contract amount and the imputed interest to the quota holder as follows:

- The gross proceeds of a tobacco quota contract will be reported on Form 1099-S, "Proceeds from Real Estate Transactions" in the year that the contract was entered into. The IRS allows the reduction of the tobacco quota contract by any amount treated as an imputed interest to calculate the tobacco quota contract taxable capital gain or loss. To provide the quota holder with the information needed to calculate the adjusted basis of the tobacco quota contract, CCC will also, provide the yearly calculation of the imputed interest on Form 1099-S.
- The imputed interest amount for contracts with a total value of **\$250,000 and under** will be calculated according to IRS Section 483 and reported yearly on Form 1099-INT.
- The imputed interest amount for contracts with a total value of **\$250,001 and over** will be calculated according to IRS Section 1274 and reported yearly on Form 1099-OID.

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Tobacco Quota Holders, *Continued*:

Example: During calendar year 2005, John Smith, a tobacco quota holder enters into a \$100,000 tobacco contract with CCC to receive \$10,000 installment payments over a 10 year contract period. The total imputed interest portion over the contract period is \$1,000 with a yearly amortization amount of \$100 over the contract period. In this situation during the first year CCC will report for John Smith a \$100,000 on Form 1099-S, for the gross proceeds of a tobacco quota contract and a \$100 on Form 1099-INT for the yearly interest portion to be reported as ordinary income. The second and remaining years, CCC will only report for John Smith a \$100 on Form 1099-INT for the yearly interest portion to be reported as ordinary income.

Tobacco Growers:

The IRS considers the tobacco growers annual installment payment as ordinary business income in the year payments are received. Therefore, CCC will report the annual installment payments made to tobacco growers on Form CCC-1099-G, "Report of Payments to Producers", for the actual amount received during the calendar year.

IRS Source of Authority and Reporting Requirements:

IRS Publication 225 "*Farmer's Tax Guide*" Updated 2005 – Chapter 3

Internal Revenue Notice 2005-57 (Page 267 of Bulletin 2005-32)

Internal Revenue Code, Sections 483, 1272, & 1274

IRS Income Tax Regulations, Sections 1.483-1, 1.483-2, & 1.446-2. Also, Sections 1.1272-1, 1.1274-1, 1.1274-2, & 1.1274-3